IT 06-0014-GIL 06/09/2006 MISCELLANEOUS

General Information Letter: Response to State of Wisconsin questionnaire on basic principles of Illinois income taxation.

June 9, 2006

Dear:

This is in response to your letter dated June 2, 2006 in which you state the following:

> Prior to each biennial budget, this office prepares detailed comparative summaries of Wisconsin's individual income tax with those of other states. For each state, the analysis includes the type of filing system, the base of income subject to taxation, tax rates and brackets and the allowable exemptions, deductions and credits. In addition, other taxes that are paid on the state income tax form are noted.
>
> I have enclosed a summary of your state for the **2005 tax year**. Information in the summary was taken directly from 2005 tax forms and instructions booklets for your state. Your state's tax base is described in terms of major differences from federal law. Due to space limitations, minor differences between state and federal law are not reflected. Certain business-related items, such as depreciation, are described in another paper reviewing corporate income and franchise taxes. In order to ensure the accuracy of the data in the summary, I would appreciate it if your office would review this information to confirm that is correct or to note any errors or omissions. In addition, if your state's tax provisions reference the Internal Revenue Code (IRC), please indicate somewhere on the enclosed summary whether (a) your state's tax provisions are automatically updated for changes in the IRC; or (b) your state's tax provisions generally reference the IRC in effect as of a certain date [if so, please indicate that date].

According to the Department of Revenue ("Department") regulations, the Department may issue only two types of letter rulings: Private Letter Rulings ("PLR") and General Information Letters ("GIL"). The regulations explaining these two types of rulings issued by the Department can be found in 2 Ill.Adm.Code §1200, or on the website http://www.tax.illinois.gov/LegalInformation/regs/part1200.

Due to the nature of your inquiry and the information presented in your letter, we are required to respond with a GIL. GILs are designed to provide background information on specific topics. GILs, however, are not binding on the Department.

We have reviewed the information in your one-page summary for Illinois income taxes with respect to a joint return for tax year 2005 for Illinois income tax purposes. The following is a list of our recommended changes, keeping in mind that our comments are based solely on tax laws as they apply to the 2005 tax year (as there are new laws in place that will require you to change your summary again for tax year 2006).

With respect to your tax base section, the disability income should state "same as federal." Deductions not listed in your summary for tax year 2005 include contributions to a job-training project established pursuant to the Tax Increment Allocation Redevelopment Act; a portion of the gain from the sale of property that was acquired before August 1, 1969; expenses relating to federally tax-exempt investments which were disallowed as federal deductions because the income from those investments was exempt under IRC Section 171(a)(2), 265, 280C and 832(b)(5)(B)(i); amounts received by taxpayers as an acceleration in the payment of life, endowment or annuity benefits in advance of the time they would otherwise be payable as an indemnity for a terminal illness; amounts of any federal or State bonus paid to veterans of the Persian Gulf War; amounts contributed (and interest earned) to the Medical Care Savings Account Act or the Medical Care Savings Account Act of 2000; amounts converted from regular IRAs to Roth IRAs; amounts received because of taxpayer's status as a victim of persecution for racial or religious reasons by Axis regimes; and bonus depreciation amounts under IRC Section 168(k). Illinois no longer provides a deduction for (1) interest on investments through the Home Ownership Made Easy program and (2) education loan repayments of certain primary care physicians.

Under the exemptions category, Illinois provides a $1000 exemption for a taxpayer who is *legally* blind.

With regards to the list of tax credits, Illinois no longer provides the environmental remediation credit. However, Illinois now has a transportation employee credit.

In addition to reviewing your summary, you ask whether our state's tax provisions are automatically updated for changes in the IRC. The answer is found in Section 102 of the Illinois Income Tax Act ("IITA"; 35 ILCS 5/101 et seq.):

> Except as otherwise expressly provided or clearly appearing from the context, any term used in this Act shall have the same meaning as when used in a comparable context in the United States Internal Revenue Code of 1954 or any successor law or laws relating to federal income taxes and other provisions of the statutes of the United States relating to federal income taxes as such Code, laws and statues are in effect for the taxable year.

As stated above, this is a general information letter which does not constitute a statement of policy that either applies, interprets or prescribes tax law. It is not binding on the Department. Should you have additional questions, please do not hesitate to contact our office.

Sincerely,

Heidi Scott
Staff Attorney -- Income Tax